

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 58060

**CITY OF OAK HARBOR**

Island County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: January 31, 1997

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## TABLE OF CONTENTS

	Page
<hr/> <b>Management Section</b> <hr/>	
Independent Auditor's Report On Compliance With Laws And Regulations At The Financial Statement Level (Plus Additional State Compliance Requirements Per RCW 43.09.260) . . . . .	M-1
Independent Auditor's Report On Internal Control Structure At The Financial Statement Level . . . . .	M-3
Schedule Of Findings:	
1. The City Should Improve Controls Over Collection Of Cash Receipts And Accounts Receivable . . . . .	M-5
2. City Officials Should Improve Internal Controls Over Fixed Assets . . . . .	M-9
<hr/> <b>Financial Section</b> <hr/>	
Independent Auditor's Report On Financial Statements And Additional Information . . . . .	F-1
General-Purpose Financial Statements:	
Combined Balance Sheet ) All Fund Types And Account Groups - 1995 . . . . .	F-3
Combined Statement Of Revenues, Expenditures, And Changes In Fund Balances ) All Governmental Fund Types And Expendable Trust Funds - 1995 . . . . .	F-5
Combined Statement Of Revenues, Expenditures, And Changes In Fund Balances ) Budget And Actual ) All Governmental Fund Types - 1995 . . . . .	F-6
Combined Statement Of Revenues, Expenses, And Changes In Fund Equity - 1995 . . . . .	F-8
Notes To Financial Statements . . . . .	F-9
Additional Information:	
Schedule Of State Financial Assistance - 1995 . . . . .	F-34
Notes To Schedule Of State Financial Assistance . . . . .	F-35
<hr/> <b>Single Audit Section</b> <hr/>	
Independent Auditor's Report On Supplementary Information Schedule Of Federal Financial Assistance . . . . .	S-1
Schedule Of Federal Financial Assistance - 1995 . . . . .	S-2
Notes To Schedule Of Federal Financial Assistance . . . . .	S-3
Independent Auditor's Report On Compliance With The General Requirements Applicable To Federal Financial Assistance Programs . . . . .	S-4
Independent Auditor's Report On Compliance With Specific Requirements Applicable To Major Federal Financial Assistance Programs . . . . .	S-6
Independent Auditor's Report On Internal Control Structure Used In Administering Federal Financial Assistance Programs . . . . .	S-8
Status Of Prior Findings . . . . .	S-11
<hr/> <b>Addendum</b> <hr/>	
Directory Of Officials . . . . .	A-1

**CITY OF OAK HARBOR**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Mayor  
City of Oak Harbor  
Oak Harbor, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the City of Oak Harbor, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Oak Harbor is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

December 10, 1996

**CITY OF OAK HARBOR**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure**  
**At The Financial Statement Level**

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Mayor  
City of Oak Harbor  
Oak Harbor, Washington

We have audited the general-purpose financial statements of the City of Oak Harbor, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted reportable conditions that we believe to be material weaknesses, which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

December 10, 1996

CITY OF OAK HARBOR  
Island County, Washington  
January 1, 1995 Through December 31, 1995

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Schedule Of Findings

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1. The City Should Improve Controls Over Collection Of Cash Receipts And Accounts Receivable

During our audit of cash receipts and accounts receivable we noticed the following internal control weaknesses:

- Marina:

- a. Two employees collect jointly from the city's payment drop-boxes and turn it over to the harbor master's assistant without counting the money to determine how much should be deposited with the bank. The harbor master's assistant then counts the money alone. These procedures fail to adequately safeguard money collected from the city's drop-boxes at the marina.

We recommend that the two employees responsible for collecting payments from the drop-boxes complete a form documenting amounts collected, and sign it as evidence of their count. The harbor master's assistant should compare the amount on this form to the money received to ensure the deposit is complete, and retain this record along with the daily cash receipt as evidence of a complete deposit.

- b. Five employees have keys providing access to payment collection points at the marina. Therefore, each of these employees has access to marina receipts at any time.

We recommend that city officials limit the number of employees with access to its payment collection points or control access to the keys.

- c. Currently, no one reconciles marina customer receivable accounts from the detailed ledger to the general ledger control account. Unless detailed customer receivable ledgers are reconciled to the control balance, city officials cannot ensure that all customer billings are recorded or that all payments are recorded and deposited.

We recommend that city officials periodically reconcile customer receivable ledgers to the control account in the general ledger.

We also recommend that the person responsible for this reconciliation be independent of billings and receipting.

- Public Works:

- a. The Public Works department issues permits before payment. Once given their permit, customers are instructed to pay for it at the treasurer's office. Under this arrangement, a person in receipt of their permit might simply leave without paying.

We recommend that city officials issue permits only after payment has been received.

- b. Public Works officials do not always make bank deposits in a timely manner. Customers often attach payments along with their building plans when submitting them for city approval. The department holds these moneys until the plans have been approved. Days can go by until these moneys are eventually forwarded to the treasurer's office for deposit.

Checks received in the mail are not receipted. One person opens the mail alone. For similar reasons as those described above, checks are often held for days before being deposited with the finance department.

We recommend that city officials receipt all payments upon collection, and deposit them with the finance department in a timely manner as required per RCW 43.09.240.

We also recommend that two people open the mail together. Both employees should sign a log or calculator tape of all moneys received and submit this log along with the money to the finance department as evidence of what was received. Finance department employees should retain this log as part of the cash receipt record.

- Utilities Billings:

- a. Currently, no one reconciles utilities customer receivable accounts from the detailed ledger to the general ledger control account. Unless detailed customer receivable ledgers are reconciled to the control account, city officials cannot ensure that all customer billings are recorded or that all payments are recorded and deposited.

We recommend that city officials periodically reconcile customer receivable ledgers to the control account in the general ledger.

We also recommend that the person responsible for this reconciliation be independent of billings and receipting.

- b. No one reviews the Billing Adjustments Report. Failure to review these adjustments increases the risk that unusual or irregular activity may occur and go undetected

We recommend that an employee independent of utility billing or cash receipting review the Billing Adjustments Report and follow up on unusual adjustments to ensure all are appropriate.



- c. No one reviews the utility customer account refunds. Failure to review refund payments increases the risk that inappropriate disbursements are made and not prevented or detected.

We recommend that the finance director or another employee independent of customer billings and receipts review account refunds.

- City Hall:

- a. Only one person opens the mail. Most utility payments are received by mail. Utility revenues for 1995 approximated 35 percent of total city revenues.

We recommend that the mail be opened in the presence of two persons. Mail with payments should be recorded in a daily receipts log. This log should be signed by both employees and retained as part of the official record.

- b. Receipt stock used by city departments is not being controlled by the finance director. Most outside departments use their own stock or Redi-form receipts. These departments include the senior center, police, and fire department. Failure to control the city's receipt stock increases the risk that missing collections may go undetected.

We recommend that the finance director assume control over the ordering and distribution of official receipts.

We also recommend that the finance director monitor use of official receipt stock to ensure all correspond to money deposited or are otherwise accounted for.

- c. Five employees have access to the safe. The overnight security of undeposited moneys is therefore susceptible to a higher risk of errors and irregularities and establishing accountability in the event of a theft would be difficult.

We recommend that access to the safe be reduced to just two employees.

- d. City hall cashiers do not provide outside departments with a receipt upon collecting their deposits. In the event of a shortage, it would be difficult to determine if it had occurred at city hall or with an outside department.

We recommend that all departments be given a receipt upon deposit.

- Fire Department:

- a. Checks received in the mail are opened by one person and are not immediately receipted nor restrictively endorsed. Checks received in person are not restrictively endorsed upon receipt. Incoming payments that are not immediately receipted, or restrictively endorsed, are susceptible to a higher risk of theft.

We recommend that two people open the mail together. Both employees should receipt or log the money from the mail. Receipts or logs should be

signed by both employees. If a log is used, it should be submitted to the finance department along with the money as evidence of what was collected, and retained as part of the official record.

We also recommend that the fire department receipt all payments and restrictively endorse all checks upon collection.

- b. At the fire department, one person is responsible for preparing the billings, receipting incoming mail, reviewing aged accounts, preparing deposits, and taking deposits to the finance department. Also, pre-printed official customer invoice stock is not used. Failure to segregate these functions and to use official city invoices increases the city's risk of errors and irregularities.

We recommend that the fire department use prenumbered, carbon copied invoice forms.

We also recommend that the finance director assume responsibility for the ordering and control over invoice stock.

We further recommend that these preprinted invoice forms show city hall as the payment remittance address.

Lastly, we recommend that all deposits be reviewed for completeness by an independent person.

- c. The fire department deposits with the finance department only a few times each month. Failure to deposit moneys in a timely manner increases the risk of errors and irregularities.

We recommend that the fire department deposit their collections with the finance department daily as required by Chapter 43.09.240 RCW.

#### Auditee's Response

*We received the following response to our finding from Finance Director Denise Soesbee in a letter dated January 17, 1997.*

*The City Finance Department is continuing its efforts to maintain effective internal controls. We continue to monitor and evaluate our current cash receipts procedures to ensure tight controls are maintained. Many of the recommendations made by the State Auditor's Office have been corrected. The following will illustrate the steps that have been and will be taken to fully correct this finding.*

#### Marina:

*The Marina currently has a procedure in place that requires two employees to collect any drop-box cash receipts between the months 5/1 and 10/1. This began effective May 1, 1996.*

*The Finance Department is in the process of revising its cash procedures requiring that only 2 people have access to any payment collection points.*

*The Finance Department is currently reconciling the Marina subsidiary ledger to the BARS General Ledger on a monthly basis.*

City Hall:

*The Utility Department is comprised of essentially two employees. Opening the mail and recording a daily receipts log would be preferred, however requires valuable time. This will be addressed in the future.*

*We have addressed redi-form receipts in our current cash procedures and have implemented it within the Finance Department. Our goal is to have ALL cash payments remitted strictly to the Finance Department.*

*The Utility Clerk/Receptionist remits a City of Oak Harbor receipt to all departments depositing money. This began effective January 1996.*

Fire Department:

*Again, our goal is to have ALL cash payments remitted strictly to the Finance Department for deposit along with all billing procedures. We currently have a cash policy which requires cash payments to be turned in to the Finance Department within a reasonable time.*

Public Works:

*The Finance Department is in the process of requiring all building permits to be printed in the Finance Department and not issued until payment is received.*

*Again, the Finance Department is updating and revising its cash receipts procedures to include more specific examples such as procedures for holding checks until the building plans are approved.*

Utility Billing:

*The City Accountant has reconciled the Utility Billing Register with the General Ledger in BARS for the period ending December 31, 1995, and will continue to do so on a monthly basis.*

*All billing adjustments are approved by either the Finance Director or the City Accountant. In the past the Billing Adjustments Report was never reviewed, however, this is easily corrected.*

*The Finance Director has been reviewing the Utility customer account refunds beginning December 1995 through the Treasurer's Check Registers and the subsequent supporting documentation. This report is also seen by the City Council on a monthly basis.*

2. City Officials Should Improve Internal Controls Over Fixed Assets

Our review of the city's fixed assets revealed the following weaknesses in internal controls:

- a. The city does not maintain a detailed asset ledger for the general fixed asset account group.
- b. City officials do not take a physical inventory of the city's assets on a regular basis.

As a result of the absence of a fixed asset ledger for the general fixed asset account group, we were unable to apply audit procedures to verify the validity of these fixed asset balances. Consequently, we consider this condition to be a material weakness in internal control for financial reporting purposes.

This condition was reported in our last three audit reports.

We again recommend that city officials:

- a. Establish and maintain a detailed fixed asset subsidiary ledger for the general fixed asset account group. All additions and retirements of fixed assets should be recorded in this ledger as they occur. The ledger should be reconciled to the general ledger control account in a timely manner.
- b. Perform a comprehensive annual physical inventory of fixed assets, including land, buildings and improvements, and equipment. Any differences between the physical inventory, the fixed assets subsidiary ledger, and the general ledger accounts should be resolved.

Auditee's Response

*We received the following response to our finding from Finance Director Denise Soesbee in a letter dated January 17, 1997.*

*The City has purchased software to record and depreciate all fixed assets. This program will provide for BAR coding and easy data base updating. This is anticipated to go on-line beginning in September 1997.*

Auditor's Concluding Remarks

We appreciate the finance director's thoughtful response to our findings and look forward to working with city management during our next audit.

**CITY OF OAK HARBOR**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements And Additional  
Information**

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Mayor  
City of Oak Harbor  
Oak Harbor, Washington

We have audited the accompanying general-purpose financial statements of the City of Oak Harbor, Island County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Evidence supporting the cost of property and equipment included in the general fixed asset account group was not available. City officials do not maintain detail asset ledgers for the general fixed asset account group, nor do they take physical inventory of the city's assets on a regular basis. We were unable to apply alternative audit procedures necessary to determine that the balances shown were valid.

The city did not prepare a Statement of Cash Flow for 1995 as required by generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to determine the validity of the general fixed asset account group and the Statement of Cash Flow, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Oak Harbor, at December 31, 1995, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 1996, on our consideration of the city's internal control structure and a report dated December 10, 1996, on its compliance with laws and regulations.

Brian Sonntag  
State Auditor

December 10, 1996

**CITY OF OAK HARBOR**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Mayor  
City of Oak Harbor  
Oak Harbor, Washington

We have audited the general-purpose financial statements of the City of Oak Harbor, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 10, 1996. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Oak Harbor taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

December 10, 1996

**CITY OF OAK HARBOR**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Mayor  
City of Oak Harbor  
Oak Harbor, Washington

We have audited the general-purpose financial statements of the City of Oak Harbor, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 10, 1996.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements.



This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

December 10, 1996

**CITY OF OAK HARBOR**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Major Federal Financial Assistance Programs**

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Mayor  
City of Oak Harbor  
Oak Harbor, Washington

We have audited the general-purpose financial statements of the City of Oak Harbor, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 10, 1996.

We also have audited the city's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to vouchers, project extensions, and materials sampling as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the city is responsible for the city's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City of Oak Harbor complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also

serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

December 10, 1996

**CITY OF OAK HARBOR**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Mayor  
City of Oak Harbor  
Oak Harbor, Washington

We have audited the general-purpose financial statements of the City of Oak Harbor, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated December 10, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated December 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the city complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated December 10, 1996.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Cash receipts
  - Cash disbursements
  - Receivables
  - Accounts payable
  - Purchasing and receiving
  - General ledger
- **General Requirements**
  - Political activity
  - Davis-Bacon Act
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements
- **Specific Requirements**
  - Types of services
  - Matching, level of effort, earmarking
  - Reporting
  - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Payroll
  - Inventory control
  - Property, plant, and equipment

- **General Requirements**
  - Relocation assistance and real property acquisition
  - Subrecipient monitoring
- **Specific Requirements**
  - Eligibility

During the fiscal year ended December 31, 1995, the city expended 94 percent of its total federal financial assistance under a major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the city's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

December 10, 1996

CITY OF OAK HARBOR  
Island County, Washington  
January 1, 1995 Through December 31, 1995

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Status Of Prior Findings

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The findings contained in the prior audit report were resolved as follows:

1. The City Officials Should Improve Controls Over Collection Of Cash Receipts And Accounts Receivable

Resolution: *Unresolved.*

2. City Officials Should Improve Accounting Controls Over Fixed Assets

Resolution: *Unresolved.*

3. The City Should Reconcile Bank Accounts To General Ledger Accounts

Resolution: *Resolved.*